MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BEC1614- MICROECONOMICS

(All Sections / Groups)

12 OCTOBER 2016
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS:

1. This question paper consists of **FOUR (4)** questions in **THREE (3)** pages. The maximum mark is 100.
2. Answer **ALL** questions.
3. Mark allocation for each question is shown at the end of the question.
4. Please write all answers to the questions in the answer booklet provided.

Answer ALL the questions. (100 Marks)

Question 1

A) The owner of a health club asks you for advice about whether the company should raise or lower the price of its membership this year based on the following information: last year the club raised the price of its membership by 5% and the number of members paying the same fee fell by 7%. (5 marks)

B) Given the products below and the events that affect them, indicate what happens to demand, supply, equilibrium quantity, and equilibrium price in a competitive market.

Identify the determinant of demand and supply that causes the shifts.

(i) Calculators. More schools require students to buy and use calculators; improved productivity shortens the time it takes to make calculators. (5 marks)

(ii) Petrol. Oil production declines due to a crisis in the Middle East; people take more car vacations and drive more. (5 marks)

(iii)New homes. The average incomes fall as the economy moves into recession; the productivity of home construction workers and builders increases. (5 marks)

C) Suppose a soft drink manufacturers sells 1 million bottles of soft drink at RM4 a bottle in year 1; 2 million bottles at RM5 in year 2; and 3 million bottles at RM6 in year 3. Do these data show that the law of demand does not hold? Explain. (5 marks)

[TOTAL 25 MARKS]

Question 2

A) A vice president of a company argues that the president of the company should raise workers' wages if the president wants less absenteeism. The president says that wages probably should be cut so that the workers could not afford to miss so much work. Evaluate the two views using the income and substitution effects in your analysis. (7 marks)

Continued...

B) Using the supply data in the schedule shown below, complete **Table 1** by computing the price elasticity of supply coefficients between each set of prices. Indicate whether supply is elastic, inelastic or unitary at each set of prices. (12 marks)

Table 1: Price elasticity of supply

Price	Quantity supplied	Elasticity coefficient	Character of supply
RM11	130		
9	110		
7	90		
5	70		
3	50		

C) What happens to the budget line when the price of a product falls? Explains consumer's optimal choice using its budget constraints and indifference curve with diagram.(6 marks)

[TOTAL 25 MARKS]

Question 3

A) An airline is flying between two cities. The airline has the following costs associated with the flight:

Crew	RM4000	Plane daily depreciation	RM2000
Fuel	1000	Plane daily insurance	2000
Landing fee	1000		

The airline has an average of 40 passengers paying an average of RM200 for this flight. Do you think the airline should be flying between the two cities? Evaluate from a short-run perspective. (6 marks)

Continued...

Table 2: The cost of production

B) Copy the following short run cost in Table 2 onto your Answer Booklet and complete it using the information provided. (10 marks)

Q	TC	TFC	TVC	AVC	ATC	MC
0	RM 4	RM____	RM____	RM____	RM____	RM____
1	7	____	____	____	____	____
2	9	____	____	____	____	____
3	10	____	____	____	____	____
4	11	____	____	____	____	____
5	13	____	____	____	____	____
6	17	____	____	____	____	____
7	22	____	____	____	____	____

C) Write short notes on the following: (9 marks)

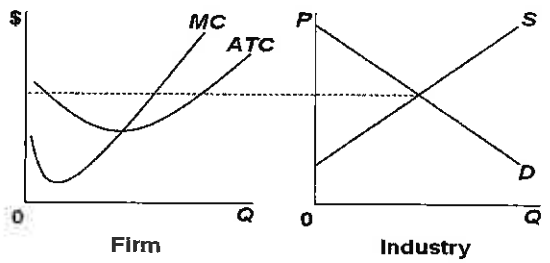
(i) Collusive pricing model
(ii) Derived Demand
(iii)Price Discrimination

[TOTAL 25 MARKS]

Question 4

A) Draw a graph of the cost curves for a monopolistically competitive firm that clearly illustrates the excess capacity that arises in the long run. Explain why this excess capacity arises. (10 marks)

B) Consider the two graphs below. Graph A represents a typical firm in a purely competitive industry. Graph B represents the supply and demand conditions in that industry. The dashed horizontal line represents the current market price for firms and for the industry. In the long run, what will happen to price, profit, the supply curve, and the number of firms in the industry? (7 marks)



Graph A **Graph B**

C) Discuss the supply curves for a firm in pure competition and pure monopoly graphically? (8 marks)

[TOTAL 25 MARKS]

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